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**ANNUAL REPORT
of the
LEGISLATIVE
AUDIT COUNCIL**

FISCAL YEAR 1980-81



GEORGE L. SCHROEDER
Director

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**ANNUAL REPORT
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LEGISLATIVE
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FISCAL YEAR 1980-81



GEORGE L. SCHROEDER
Director

LETTER OF TRANSMITTAL

September 1, 1981

**To: His Excellency, Richard W. Riley, Governor and Members
of the General Assembly**

**Transmitted herewith is the Annual Report of the South
Carolina Legislative Audit Council for the fiscal year ended
June 30, 1981.**

Respectfully submitted,

**George L. Schroeder
Director**

**GLS/cah
Enclosure**

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FOREWORD

The South Carolina Legislative Audit Council was created by the Legislature in 1975 and charged with the responsibility of auditing State agencies. The Audit Council reports the results of its work directly to the General Assembly. Through its audit work, the Council provides the Legislature with information for evaluating the operation of State agencies. The General Assembly can use this information in deciding what should be done to bring high-quality services to South Carolina in the most effective and economical manner.

The Legislative Audit Council performs its work in the following ways:

- (1) The Council investigates and studies any question or issue referred to it by the members of the General Assembly and reports impartial and accurate information back to the General Assembly.
- (2) Upon request, the Council audits both fiscal and programmatic activities of any State agency or institution in order to recommend ways the Legislature can improve the efficiency and effectiveness of such agencies.
- (3) Under the South Carolina Sunset Law, the Council evaluates those State agencies which the Legislature has earmarked for termination. The Council's sunset audits are based on the criteria set forth in the law, and the Legislature uses the findings to help in its decisions.
- (4) Other legislation, such as the Education Finance Act of 1977, contains specific mandates for Legislative Audit Council review of programs.

The Legislative Audit Council conducts its work according to accepted auditing standards. For its professional guidelines, the Council uses the publication, *Standards for Audit of Governmental Organizations, Programs, Activities and Functions*, issued in 1972 by the Comptroller General of the United States in consultation with State and local finance officials and such related professional organizations as the American Institute of Certified Public Accountants (AICPA).

The Legislative Audit Council publishes its findings in reports to the General Assembly. The Council presently releases four kinds of audit reports: comprehensive agency audit reports, sunset audit reports, program audit reports,

and system-wide audit reports. The reports contain recommendations that can range from relatively minor adjustments in agency operations to full-scale readjustments in major programs. Through the independence given to the Council by the General Assembly, and through the independent and rigorous nature of its audit and review procedures, the Legislative Audit Council strives to produce findings and recommendations that are impartial, objective and useful to the Legislature and the people of South Carolina.

ORGANIZATION

As the size and responsibilities of State Government have grown, so has the General Assembly's need for effective ways to oversee the activities of governmental agencies and institutions. The Legislative Audit Council was created in 1975 to audit State programs and activities. The primary purpose of these audits is to determine if State funds have been spent efficiently, effectively and according to State law. The Council is composed of three public members and six ex officio members. The public members, one of whom must be a practicing certified or licensed public accountant, are elected in a joint session of the General Assembly from a list chosen by a nominating committee. Any person who is a member of the General Assembly or has served in the preceding two years cannot be elected as a public member of the Council. Public members are elected to six-year terms and vote on all Council matters.

Ex officio members of the Council can vote on all matters except those pertaining to audit functions and personnel. The six ex officio members are the Chairmen of the Senate and House Judiciary Committees; the Chairmen of the Senate Finance and the House Ways and Means Committees; the Speaker of the House of Representatives and Lieutenant Governor.

Professional staff of the Legislative Audit Council perform the actual audit work, which is published in reports presented to the Legislature. The staff is headed by a Director and is composed of persons having varied backgrounds in areas such as business management, public administration, accounting, law, political science, education, economics, computer science and statistics. This allows the Council to bring a broad perspective to its audit work.

Council Members

Robert S. Small, Jr., Chairman

F. Hall Yarborough

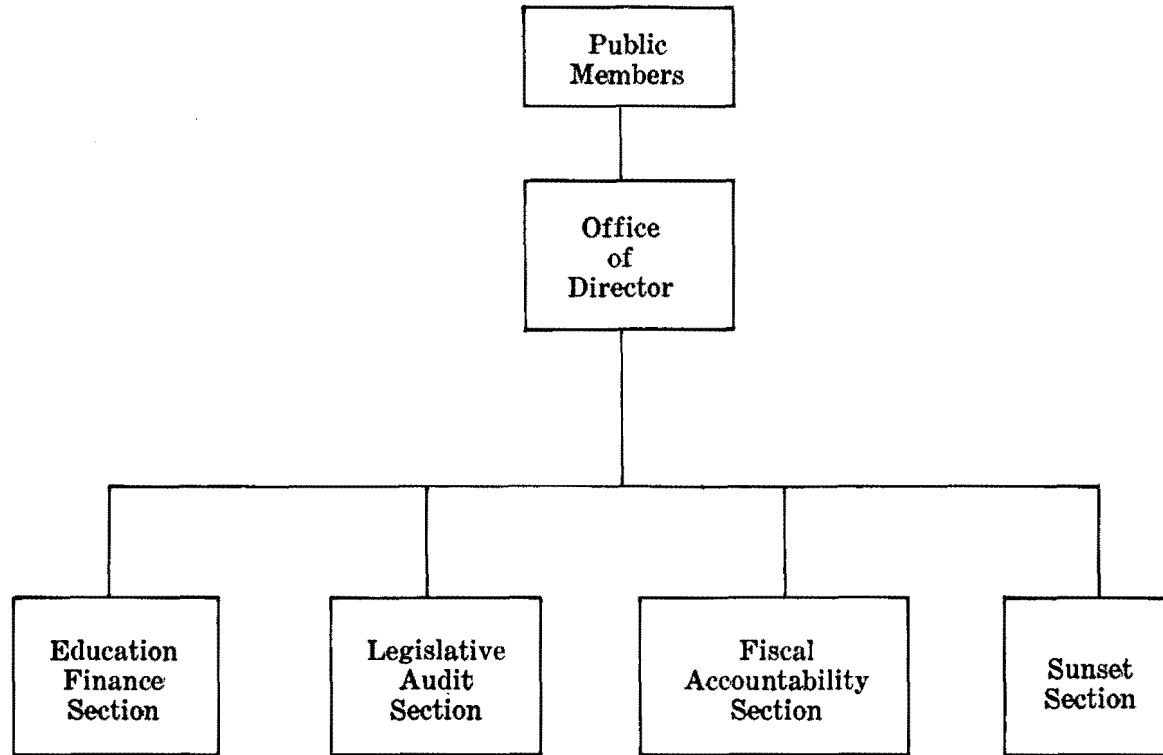
Key Staff

George L. Schroeder, Director

Albert M. Gross, Deputy Director

Lois D. Tarte, Executive Assistant

**SOUTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE AUDIT COUNCIL**



PROCEDURES AND METHODS

Requesting Audits

In general, requests for audits are received in writing from the General Assembly as a whole, its committees or its individual members. Other audits are performed when mandated by a specific piece of legislation or resolution. When a specific request for an audit is received, the requestor is notified that it will be placed on the Legislative Audit Council agenda.

The Council then evaluates the requests using several criteria including:

- (1) The Council's enabling legislation, which states:

A request for fiscal research or related information for a standing committee, or for the Speaker of the House, or president Pro-Tem of the Senate, shall take priority over such a request by an individual member of the either body, except where that information has been previously requested by an individual member.

- (2) the impact of the program or agency on the citizens of South Carolina;
- (3) the amount of public funds appropriated to the agency;
- (4) the potential impact of the Council's recommendations on the efficient and effective delivery of services; and
- (5) the existing workload.

Requests for audits are assigned priorities and scheduled based on these five criteria. At this time the requestor is notified.

The Legislative Audit Council encourages members and committees of the General Assembly to submit requests for audits. In this way the Council is better able to discern the interests and concerns of legislators and to respond to these interests.

Comprehensive Scope

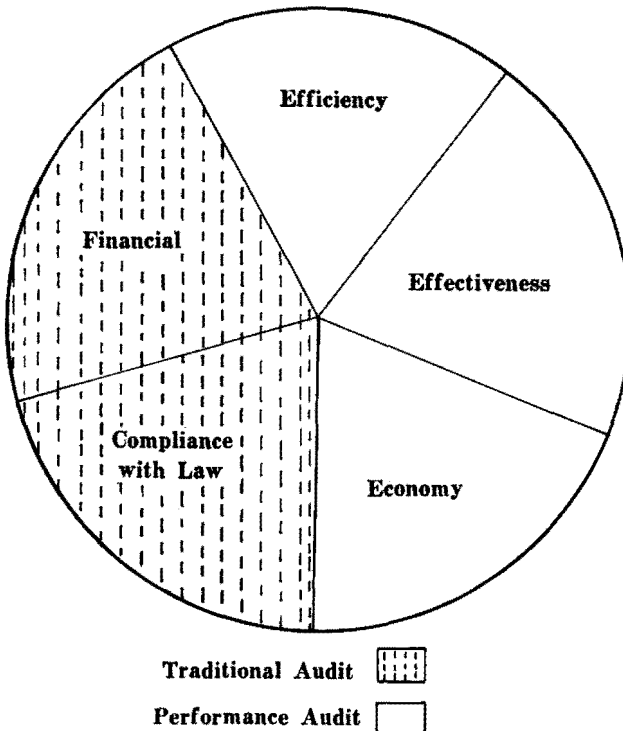
In order to present a well-rounded and complete review of a program or agency, the Council has adopted the comprehensive approach to audits promulgated by the Comptroller General of the United States. This means that both the fiscal

and programmatic aspects of an agency are examined.

A comprehensive approach covers five basic audit areas:

- (1) the agency's compliance to laws and regulations;
- (2) the efficiency of an agency's operations and expenditures;
- (3) the economy of a program or agency—are the services provided worth the cost of providing them?;
- (4) the effectiveness of an agency whether it adequately serves the public and fulfills the goals and expectations of those who appropriate its funds; and
- (5) the agency's financial management and accountability systems.

COMPREHENSIVE AUDIT APPROACH



In order to present unbiased information to the General Assembly, the Legislative Audit Council seeks to work in an objective and independent manner. To this end, all audit reports are documented according to accepted practices and standards recognized by the American Institute of Certified Public Accountants (AICPA), the U. S. General Accounting Office (GAO), and organizations concerned with legislative program evaluations. Information about an agency's operations, performance and expenditures is gathered by several means:

- (1) examination of agency records, documents and reports;
- (2) examination of all applicable laws and regulations, both State and Federal;
- (3) interviews, on-site observations and surveys; and
- (4) analysis of statistical and financial data.

In order to prevent unintentional error or bias, a draft copy of the audit report is discussed with the staff of the agency under review. The agency is invited to reply to the audit in writing, and its written comments become a part of the final report. An audit report must be reviewed and approved by the public members of the Legislative Audit Council. Until the report is given to the General Assembly, the information it contains is considered confidential. Upon publication, copies of the audit are sent to each member of the General Assembly, the Clerks of the House and the Senate, the State Constitutional Officers, the Office of the Governor, the State Library and the agency under review. Members of the public are provided copies of the audit upon request.

AUDIT STEPS

1. Audit is requested and approved.
2. "Entrance Conference"—Agency is notified of audit and Council staff conduct preliminary research.
3. Audit plan is developed.
4. Council staff conduct research and audit test.
5. "Exit Conference"—Agency under review reads report draft and submits written comments.

6. Draft report is reviewed by Council and staff.
7. Final revisions are made in draft report and, if necessary, in agency's comments.
8. Council approves final report.
9. Report is submitted to members of the General Assembly and to the public.

AUDIT MANDATES

Under its enabling legislation (South Carolina Code Title 2, Chapter 15) the Legislative Audit Council is required to audit the operations of State agencies, to investigate fiscal matters as required by the General Assembly, and to provide information to assist the Legislature. The Council's reports can be grouped into three categories—comprehensive agency audit reports, program audit reports, and system-wide reports. Although these different types of reports share some common audit objectives, each contains certain types of audit work not found in the others.

Other legislation has mandated new, ongoing duties for the Council. The Education Finance Act of 1977 (South Carolina Code Title 59, Chapter 20) requires the Council to make sample audits to assess compliance with all provisions of the Act. The Sunset Act of 1978 (Act 608, Title 1, Chapter 20) requires full-scope reviews of 40 State agencies and boards, carried out on a six-year cycle, to determine the impact that would occur if these agencies were terminated or reduced. The Fiscal Accountability Act of 1976 (Title 1, Chapter 1) requires all State agencies and institutions to report to the Council information on their organization, operation, and expenditures.

Comprehensive Agency Audits

Comprehensive agency audits evaluate the efficiency, effectiveness, economy and legality with which State agencies carry out their financial, management, and program responsibilities. The Council's auditors review agency records and procedures and conduct the necessary tests to determine the reasonableness of the agency's control over its financial affairs and records. Part of the agency audit is devoted to assessing how effectively or efficiently an agency is operating. Within the provisions of its statutes and the existing size of its staff, the Council will continue to employ new ways to evaluate agency programs and activities. In FY 80-81, comprehensive audits of three agencies were released and/or started.

Program Audits

At the direction of the General Assembly, the Council conducts audits of particular State programs, activities or

special issues. These audits assess how effectively and efficiently a program is meeting its goals. They also address other questions such as whether a program is being carried out in accordance with the General Assembly's intent, or whether changes in the program would better serve the Legislature's goal of providing high-quality public services to South Carolinians at a reasonable cost. The Council released or started reviews of eight State programs and/or special issues as requested by the General Assembly in FY 80-81.

System-wide Audits

The Council audits State systems and activities which affect many agencies at the State and local level. System-wide audits that have been performed since 1975 include studies of the State budget process, personnel operations and the public education system. These audits examine the economy and expediency with which services are provided, and often recommend ways to reduce duplication of services. In FY 80-81, four system-wide audits were released and/or begun.

Education Finance Act

The Education Finance Act directs the Legislative Audit Council to assess compliance with its provisions annually. In FY 80-81, the Council's review focused on the progress made in the implementation of the Act, noting any obstacles which could hinder its implementation; and reviewing the initial impact of the Act upon public education in this State. Each funding component contained in the Act was studied. Fiscal and statistical analyses were conducted to test the validity and accuracy of the education information used for decision-making. Also during the year a cost analysis of handicapped education in six State agencies was begun. Future audits will be designed to focus on school district compliance with the Act and other specific areas of interest as requested by the General Assembly.

Sunset Audits

During FY 78-79, the Legislative Audit Council began conducting sunset audits—performance audits of agencies that the Legislature has scheduled for termination under the South Carolina Sunset Law. All of these agencies regulate State programs or services. The Sunset Law calls for evaluating such matters as the need for regulation, the cost of

regulation, and the protection provided to the public by the regulation. Performance factors regarding a program's effectiveness and efficiency are used to evaluate the programs. The findings from sunset audits are used by the State Reorganization Commission and appropriate legislative committees as they consider whether to take action to re-establish the agencies. Public hearings are held as a part of this review process. In FY 80-81 the Council participated in the public hearings of six regulatory boards scheduled to be terminated on June 30, 1981. The Council also reviewed seven medically-related boards scheduled for termination on June 30, 1982.

THE SUNSET QUESTIONS

1. The amount of the increase or reduction of costs of goods and services caused by the administering of the programs or functions of the agency under review.
2. Economic, fiscal and other impacts that would occur in the absence of the administering of the programs or functions of the agency under review.
3. The overall cost, including manpower, of the agency under review.
4. The efficiency of the administration of the programs or functions of the agency under review.
5. The extent to which the agency under review has encouraged the participation of the public and, if applicable, the industry it regulates.
6. The extent to which the agency duplicates the services, functions and programs administered by any other State, Federal, or other agency or entity.
7. The efficiency with which formal public complaints filed with the agency concerning persons or industries subject to the regulation and administration of the agency under review have been processed.
8. The extent to which the agency under review has complied with all applicable State, Federal and local statutes and regulations.

Fiscal Accountability Act

Under the Fiscal Accountability Act four quarterly reports

are produced each year. The reporting system for the Fiscal Accountability Act is now almost completely automated except for the quarterly personnel reporting requirements and the biennial organization chart submission. Most of the purchasing, budget and expenditure data is stored on microfiche.

As recommended by the Audit Council, the entire fiscal reporting system developed for the Fiscal Accountability Act will be transferred to the Office of the Comptroller General beginning FY 81-82 (Article 3 of Act 148 of 1981.) This will eliminate unnecessary duplication and improve the efficiency and timeliness of providing useful information to the General Assembly.

Receipts and Disbursements of Appropriated Funds

Year Ending June 30, 1980

Appropriations

Appropriated Funds	\$530,481.21	
Inter-Departmental		
Transfers (EFA)	165,622.00	
Total Available Funds		<u>\$696,103.21</u>

Disbursements

Personal Services:

Director	\$ 40,499.94	
Unclassified Positions	463,592.24	
Temporary Positions	2,040.75	
Per Diem	595.00	
Total Personal Services		\$506,727.93

Other Operating:

Contractual	49,181.45	
Supplies	4,428.47	
Fixed Charges and		
Contributions	51,869.74	
Equipment	1,668.03	
Total Other Operating		\$107,147.69

Employer Contributions	<u>\$ 77,852.11</u>	
Total Employer Contributions ..		\$ 77,852.11
Total Disbursements		<u>\$691,727.73</u>

Lapsed to General Fund	2,075.48	
Carried Forward to FY 81-82	2,300.00	
Total Budget		<u><u>\$696,103.21</u></u>

**Legislative Audit Council
Reports Released to the General Assembly
FY 80-81**

Title	Date Released
Management and Performance Review of the South Carolina Commission on Alcohol and Drug Abuse	July 10, 1980
Management and Performance Review of the Environmental Quality Control Division of the Department of Health and Environmental Control	July 24, 1981
Sunset Review of the Boards of:	
Pharmaceutical Examiners	July 23, 1980
Veterinary Medical Examiners	July 23, 1980
Chiropractic Examiners	July 23, 1980
Medical Examiners	July 30, 1980
Dentistry	July 30, 1980
Nursing	July 30, 1980
Study of the Implementation of the Education Finance Act of 1977	December 16, 1980
Audit of Patriots Point Development Authority	December 23, 1980
A Comparison of Cost Effectiveness Procedures Among Centralized and Decentralized Purchasing Systems and Public Purchasing in South Carolina	March 25, 1981
A Review of Road Paving Costs in South Carolina	April 16, 1981
A Performance and Management Review of the South Carolina Educational Television Network	April 30, 1981
A Management and Performance Review of the Division of Child Development within the Department of Social Services	May 28, 1981
Fiscal Accountability Act Reports	
Quarter Ending:	
October—December 1979	July 1980
January—March 1980	July 1980
April—June 1980	December 1980
July—September 1980	February 1981
October—December 1980	April 1981